

stopped buy orders) or offer (for stopped sell orders) with time priority were executed by the close. The Commission recognizes the unintended consequences that can arise from the interplay between a regional exchange's price protection rules and its procedures for stopping stock.¹⁸ In the Commission's opinion, the CHX data suggests that stopped stock generally has been executed in accordance with traditional auction market principles.

Finally, the CHX has responded to the Commission's questions about compliance with the pilot program procedures; at this time, the Exchange staff is not aware of any market surveillance investigations or customer complaints relating to the practice of stopping stock in minimum variation markets.¹⁹ In the event, however, that the CHX identifies any instances of specialist noncompliance with the pilot procedures, the Commission would expect the Exchange to take appropriate action in response.

During the pilot extension, the Commission requests that the Exchange continue to monitor the effects of stopping stock in a minimum variation market and to provide additional information where appropriate. In addition, if the Exchange determines to request permanent approval of the pilot program or an extension thereof beyond July 21, 1995, the CHX should submit to the Commission a proposed rule change by April 15, 1995.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of the notice of filing thereof. This will permit the pilot program to continue on an uninterrupted basis. In addition, the procedures the Exchange proposes to continue using are the identical procedures that were published in the **Federal Register** for the full comment period and were approved by the Commission.²⁰

It is therefore ordered, pursuant to Section 19(b)(2)²¹ that the proposed rule change (SR-CHX-95-04) is hereby approved on a pilot basis until July 21, 1995.

¹⁸ See *supra*, note 8 and accompanying text.

¹⁹ Telephone conversation between David T. Rusoff, Foley & Lardner, and Beth A. Stekler, Attorney, Division of Market Regulation, SEC, on February 28, 1995.

²⁰ No comments were received in connection with the proposed rule change which implemented these procedures. See 1992 Approval Order, *supra*, note 4.

²¹ 15 U.S.C. 78s(b)(2) (1988).

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²²

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-5578 Filed 3-7-95; 8:45 am]

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[Release No. 34-35427; File No. SR-MSRB-94-10]

Self-Regulatory Organization; The Municipal Securities Rulemaking Board; Order Approving Proposed Rule Change Establishing Three Business Day Settlement Time Frame

February 28, 1995.

On August 9, 1994, the Municipal Securities Rulemaking Board ("MSRB") submitted a proposed rule change to the Securities and Exchange Commission ("Commission") pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal appeared in the **Federal Register** on August 24, 1994.² The Commission received four comment letters.³ This order approves the proposal.

I. Description of the Proposal

The purpose of the proposed rule change is to establish three business days after execution of a trade ("T+3") as the standard settlement time frame for transactions in municipal securities. The proposal conforms the standard settlement time frame for municipal transactions to that for most other equity and debt securities transactions.⁴ Currently, regular-way settlement is defined as five business days ("T+5") in

²² 17 CFR 200.30-3(a)(12) (1991).

¹ 15 U.S.C. 78s(b) (1988).

² Securities Exchange Act Release No. 34541 (August 17, 1994), 59 FR 43603.

³ Letters from R.N. Dillingham to Commissioners, Commission (September 12, 1994); Sarah A. Miller, Senior Government Relations Counsel, Trust and Securities, American Bankers Association, to Jonathan G. Katz, Secretary, Commission (September 14, 1994); P. Howard Edelstein, President, Electronic Settlement Group, Thomson Trading Services, Inc. (A Thomson Financial Services Company), to Jonathan G. Katz, Secretary, Commission (September 16, 1994); and Diane M. Butler, Director—Operations & Fund Custody, Investment Company Institute, to Jonathan G. Katz, Secretary, Commission (September 22, 1994). In addition, the MSRB received six comment letters prior to filing the proposed rule change with the Commission. See *infra* note 7.

⁴ On October 6, 1993, the Commission adopted Rule 15c6-1 under the Act which establishes T+3 as the standard settlement cycle for most broker-dealer transactions. Rule 15c6-1 does not apply to transactions in municipal securities. While municipal securities were specifically exempt from the scope of the rule, the Commission stated its expectation that the MSRB would take the lead in moving municipal securities to a T+3 settlement time frame. Securities Exchange Act Release No. 33023 (October 6, 1993), 58 FR 52891.

MSRB rules G-12 ("Uniform Practice") and G-15 ("Confirmation, Clearance and Settlement Transactions with Customers"). The proposed rule change will be effective on June 7, 1995, the same day as the Commission's Rule 15c6-1.⁵

The proposed rule change allows alternate settlement time frames for municipal securities transactions in the secondary market by agreement of the parties at the time of each individual transaction. Thus, broker-dealers may not use standing instructions or master agreements to retain T+5 settlement as a standard practice.

The proposed rule change does not alter the current practice with respect to "when, as and if issued" transactions.⁶ Currently, "when, as and if issued" transactions are not settled in five business days due to the various actions necessary to accomplish settlement with the issuer of municipal securities. Therefore, rule G-12(b) will continue to provide that "when, as and if issued" transactions will settle on a date agreed to by both parties but not earlier than the fifth day following the date the confirmation indicating the final settlement date is sent or the sixth day following the date the confirmation indicating the final settlement date is sent for transactions between a manager and a syndicate member.

The proposed rule change also will amend rule G-15(d)(i) relating to institutional customer delivery instructions on delivery versus payment or receipt versus payment ("DVP/RVP") settlements to reflect a T+3 rather than T+5 settlement cycle. Pursuant to the amendment, a broker-dealer must obtain a representation from a customer with DVP/RVP privilege that the customer will deliver instructions to its agent with respect to the receipt or delivery of the securities involved in the transaction promptly and "in a manner to assure that settlement will occur on settlement date." The MSRB has deleted references to specific agent instruction time frames.

II. Written Comments

In addition to the six comment letters the MSRB received prior to the filing of its proposal,⁷ the Commission received

⁵ Rule 15c6-1, as adopted, was to become effective June 1, 1995. In order to provide for an orderly and efficient transition from T+5 settlement to T+3 settlement, the Commission has changed the effective date of Rule 15c6-1 to June 7, 1995. Securities Exchange Act Release No. 34952 (November 9, 1994), 59 FR 59137.

⁶ "When, as and if issued" transactions are transactions in municipal securities which have not yet been issued.

⁷ Letters from W. Pat Connors, Connors & Co., Inc., to Judy Somerville, MSRB (March 25, 1994);

four comment letters, two in support,⁸ one in opposition,⁹ and one suggesting that additional regulatory changes may be necessary to implement T+3 settlement.¹⁰ Supporters cited benefits such as reduction in market risk and liquidity risk. Thomson Trading Services ("Thomson") suggested an amendment to MSRB rules that require use of a registered clearing agency's facilities for automated confirmations and acknowledgments. R.N. Dillingham opposed the proposed rule change and asserted an inability on the part of retail investors to meet settlement obligations.

Prior to filing with the Commission, the MSRB received six letters commenting on T+3 settlement for municipal securities.¹¹ All six commenters are small retail broker dealers which are concerned with their ability to comply with the proposal, the proposal's increased economic costs, and its effect on their relationship with individual investors.

III. Discussion

As discussed below, the Commission believes that the MSRB's proposed rule change is consistent with Sections 15B and 17A of the Act.¹² By adopting a T+3 settlement time frame for municipal securities, the settlement cycle for municipal securities will be consistent with the settlement cycle for most corporate and investment company securities. Separate settlement cycles would impose unnecessary cost and operational difficulties on industry participants.¹³ As more fully described in the T+3 adopting release, the Commission believes that faster trade settlement can reduce the potential for gridlock and foster investor confidence in securities markets during periods of high volume and price volatility by reducing systemic risk and liquidity risk

in the municipal bond market.¹⁴ As the Investment Company Institute noted in its comment letter, the proposed rule change also addresses the problems associated with a mutual fund's obligation to redeem shares daily at the fund's net asset value upon request by its shareholders.¹⁵

Thus, the Commission believes that the proposed rule is consistent with Section 15B. Section 15B, among other things, requires that the MSRB's rules be designed to foster cooperation and coordination with persons engaged in clearing, settling, and processing information with respect to, and facilitating transactions in, municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.¹⁶ By reducing risk in the municipal securities market, the proposed rule change protects investors and the public interest. By eliminating the burden of separate settlement cycles, the proposal fosters cooperation and coordination with persons engaged in the clearing, settling, and facilitating transactions in municipal securities consistent with Section 15B.

In Section 17A, Congress set forth in its findings that linking all clearance and settlement facilities and the development of uniform standards and procedures for clearance and settlement will reduce unnecessary costs and increase the protection of investors and persons facilitating transactions by and acting on behalf of investors.¹⁷ While municipal securities generally are defined as exempt securities under the Act,¹⁸ municipal securities are specifically included for purposes of Section 17A of the Act.¹⁹ By shortening the settlement time frame for municipal

securities so that it is the same as the settlement time frame for corporate securities, the proposal should forward the goal of developing uniform standards and procedures as set forth in Section 17A.

Commenters opposed to the proposed rule change raised concerns previously considered in connection with the adoption of Rule 15c6-1. Four commenters expressed concern that their customers would not or could not pay for their securities purchases by T+3, thus forcing the broker-dealer to finance the customer's purchases for two days.²⁰ Several commenters raised similar concerns during the adoption process for Rule 15c6-1. In the adopting release, the Commission stated that:

The Commission is sensitive to the costs necessary for transition to a shorter settlement time frame but on balance believes that the benefits to the financial system outweigh those costs. Moreover, the Commission believes Rule 15c6-1 creates an incentive for broker-dealers, particularly retail firms, to encourage timely customer payments, and improve management of cash flows * * *. [T]he Commission expects broker-dealers will have adequate notice to educate customers about the need for prompt payment and will have adequate time and incentive to implement changes to reduce the need for financing.²¹

The Commission continues to believe that the benefits in risk reduction outweigh the costs involved.

Several commenters were concerned about the ability of retail customers to meet T+3 settlement obligations, particularly given their heavy reliance on the mail to receive confirms, make payments, and deliver physical stock certificates.²² The Commission believes that matters such as these can be handled by broker-dealers educating their customers on the need to send payment immediately after execution of trades and through employment of methods to speed delivery of confirmations and stock certificates. In most instances, checks mailed on trade date should reach the broker-dealer by T+3.

One commenter stated that its relationship with individual investors will be affected adversely because customers will believe that their broker is experiencing financial difficulties or that the broker believes that the

Steve Harris, Executive Vice President, Golden Harris Capital Group, Inc., to David Clapp, Chairman, MSRB (April 11, 1994); Ronald E. Ott, President, Davidson Securities, Inc., to Judy Somerville, MSRB (May 10, 1994); Roger Springate, Jr., Springate & Company, to MSRB (May 11, 1994); Frederick Stoeber, President, Stoeber Glass & Co., to Chris Taylor, Executive Director, MSRB (undated); and Gene J. d'Ercole, Executive Vice President, Wulff, Hansen & Co., to David Clapp, Chairman, MSRB (June 9, 1994).

⁸ Letters from American Bankers Association and Investment Company Institute, *supra* note 3.

⁹ Letter from R.N. Dillingham, *supra* note 3.

¹⁰ Letter from Thomson Trading Services, Inc., *supra* note 3.

¹¹ *Supra* note 7.

¹² 15 U.S.C. 78o-4 and 78q-1 (1988).

¹³ In its comment letter, the American Bankers Association supported the rule because, among other reasons, settling municipal securities on a T+5 basis while settling most other securities on a T+3 basis which require operating multiple settlement systems, which will be extremely burdensome and costly.

¹⁴ By reducing the settlement time frame for municipal securities transactions from five business days to three business days, there will be fewer unsettled municipal securities trades subject to credit and market risk at any given time, and there would be less time between trade execution and settlement for the value of those trades to deteriorate. Such risk reduction was one of the major reasons the Commission adopted Rule 15c6-1.

¹⁵ T+3 settlement for mutual funds could create problems in satisfying redemption requests, particularly for funds such as municipal bond mutual funds whose portfolios are invested largely in securities that are not subject to T+3. The Investment Company Institute states "if a municipal bond mutual fund has to sell portfolio securities to meet redemptions, it might be unable to satisfy its obligations if redemption proceeds has to be paid to redeeming shareholders within three days while the fund could not be assured of receiving the proceeds from selling its portfolio securities until two days later."

¹⁶ 15 U.S.C. 78o-4(B)(2)(C) (1988).

¹⁷ 15 U.S.C. 78q-1(a)(1)(D) (1988).

¹⁸ 15 U.S.C. 78c(a)(12)(A)(ii) (1988).

¹⁹ 15 U.S.C. 78c(a)(12)(B)(ii) (1988).

²⁰ Letters from Golden Harris Capital Group, Inc., Davidson Securities, Inc., Stoeber Glass & Co., and Wulff, Hansen & Co., *supra* note 7.

²¹ *Supra* note 4.

²² Letters from Golden Harris Capital Group, Inc., Springate & Company, Connors & Co., Inc., R.N. Dillingham, and Wulff, Hansen & Co., *supra* notes 3 and 7.

customer is less credit worthy.²³ The Commission believes that by educating investors about the requirements of T+3 settlement, broker-dealer can limit such customer confusion.

Another commenter, Thomson, supports MSRB's efforts to shorten the settlement cycle for municipal securities transactions. Thomson, however, believes that the MSRB should amend rule G-15(d)(ii), which requires the use of a registered clearing agency's facilities for automated confirmation and acknowledgement of all DVP/RVP transactions.²⁴ Since Thomson's letter,²⁵ the MSRB has issued a letter which denied Thomson's request and which stated the MSRB's believe that providers of confirmation/acknowledgment services should be subject to regulatory oversight and should be linked into other providers of such services.²⁶

The Commission believes that the issues raised by the Thomson letter need not be resolved prior to the approval of the proposed rule change. Discussions regarding Thomson's concerns are underway among the Commission, Thomson, and DTC. DTC has submitted a rule filing that will establish a linkage between DTC and vendors such as Thomson.²⁷ In denying Thomson's request, MSRB stated that it would consider any proposals arising from Thomson's discussions with the Commission. The Commission intends to consider whether self-regulatory organization rules should continue to preclude use of private vendor systems for confirmation/affirmation services in DVP/RVP trades. However, the Commission believes that T+3 settlement of municipal securities

should not be delayed while these issues are being resolved.

As discussed above, Thomson's letter suggests that approval of the proposed rule change without amendments to MSRB rule G-15(d)(ii) raises competitive concerns. Under the Act, the Commission's responsibility is to balance the perceived anticompetitive effects of a regulatory policy or decision against the purpose of the Act that would be advanced by the policy or decisions and the costs associated therewith. The Commission notes that any anticompetitive effects pointed to by Thomson are not caused by the proposed rule change approved by this order but rather by an existing MSRB rule. The Commission is reviewing Thomson's claim but does not believe that approval of this proposal will itself create any burdens on competition. Moreover, as discussed above, the rule advances fundamental purposes under the Act, namely the efficient clearance and settlement of securities.

IV. Conclusion

For the reasons stated above, the Commission finds that MSRB's proposal is consistent with Sections 15B and 17A of the Act.²⁸

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²⁹ that the proposed rule change (File No. SR-MSRB-94-10) be, and hereby is, approved.³⁰

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-5584 Filed 3-7-95; 8:45 am]

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[Release No. 34-35434; File No. SR-PTC-95-01]

Self-Regulatory Organizations; Participants Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Reduction of Certain Fees

March 2, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934¹ ("Act"), notice is hereby given that on January 31, 1995, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by PTC. On February 7, 1995, PTC amended the proposal.² The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The text of the proposed rule change is as follows:

italics indicate additions
[brackets] indicate deletions

Participants Trust Company Schedule of Fees

FULL SERVICE PARTICIPANTS

[Effective April 1, 1995]

Service	Fee
Account Maintenance:	
First Six Business Accounts	[\$2,500.00] 2,000.00/month.
Additional Account	\$250.00/account/month.
Book-Entry Delivery/Receipt*—(includes all DK's and FTX Transactions).	[\$3.00] 2.00 each.
Repo Movement	[\$3.00] 2.00 each.
Seg Movement (\$.50/side)	\$1.00 each.
MVC (Bulk Seg Movement—regardless of number of positions)	\$50.00 each.

²³ Letter from Springate & Company, *supra* note 7.

²⁴ Thomson asserts that rule G-15(d)(ii) precludes vendors such as Thomson from competing with The Depository Trust Company ("DTC"), a registered clearing agency. Letter from Thomson, *supra* note 3. The self-regulatory organization confirmation rules limit confirmation and acknowledgment of institutional trades to the facilities of a registered securities depository.

²⁵ In an earlier letter, Thomson formally requested

P. Howard Edelstein, President, Electronic Settlements Group, Thomson Trading Services, Inc. (A Thomson Financial Services Company), to Harold L. Johnson, Deputy General Counsel, MSRB (June 24, 1994).

²⁶ Letter from Harold L. Johnson, Deputy General Counsel, MSRB, to P. Howard Edelstein, President, Electronic Settlements Group, Thomson Financial Services (November 9, 1994).

²⁷ Securities Exchange Act Release No. 35332 (February 3, 1995), 60 FR 8102.

²⁸ 15 U.S.C. 78o-4 and 78q-1 (1988).

³⁰ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letter from Leopold S. Rassnick, Senior Vice President, General Counsel and Secretary, PTC, to Jonathan Katz, Secretary, Commission (February 1, 1995).